REPORT OF EXAMINATION

OF THE

SEQUOIA INSURANCE COMPANY

AS OF

DECEMBER 31, 2021

Filed on June 30, 2023

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Oakland, California
May 25, 2023

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SEQUOIA INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 17771 Cowan Avenue, Suite 100, Irvine, California 92614.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination whereby Delaware was the lead state of the AmTrust Financial Services, Inc. group (AFSI). The examination was conducted concurrently with other insurance entities in the AFSI holding company system. The California Department of Insurance participated on this coordinated examination.

COMPANY HISTORY

On May 9, 2018, Evergreen Parent, L.P. (Evergreen Parent), a Delaware limited partnership and Evergreen Parent GP, LLC, (Evergreen GP), a Delaware limited liability company, filed an application for consent to acquire control of the Company through AmTrust Financial Services, Inc. (AFSI) pursuant to an Agreement and Plan of Merger dated as of March 1, 2018. The acquisition was in connection with the privatization of AFSI. Evergreen GP is the general partner of Evergreen Parent. On November 27, 2018, the California Department of Insurance (CDI) approved the acquisition pursuant to California Insurance Code (CIC) Section 1215.2. Effective November 28, 2018, AFSI completed its go-private transaction, and shares of its common stock were delisted from the NASDAQ Stock Exchange. As a result of the acquisition, AFSI became a direct wholly-controlled subsidiary of Evergreen Parent.

Effective June 30, 2019, pursuant to an Agreement and Plan of Merger dated June 13, 2018, the Company's direct subsidiary, Sequoia Indemnity Company, a Nevada domiciled company was merged with and into the Company with the Company being the surviving entity. The CDI approved the merger pursuant to CIC Section 1011(c) on June 25, 2019.

Effective December 31, 2019, due to an internal reorganization of certain AFSI U.S. insurance companies covered by the Reinsurance Pooling Agreement, effective October 1, 2017, AFSI contributed its ownership of the Company to its wholly-owned direct subsidiary, Technology Insurance Company, Inc. (TIC). As a result, the Company became a direct subsidiary of TIC. On September 20, 2019, pursuant to CIC Section 1215.2(g), the Company filed an application for exemption from the Form A filing requirement. The exemption was granted by the CDI on December 10, 2019.

Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with a par value of $10.50 per share. As of December 31, 2021, there were 400,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a member of the AmTrust Financial Services, Inc. (AFSI) insurance holding company system of which the ultimate controlling entity is Evergreen Parent GP, LLC. The following abridged organizational chart is limited to the Company's interrelationship with certain entities within the holding company system at December 31, 2021 and does not depict all entities under AFSI (all ownership is 100% unless otherwise indicated):

- Evergreen Parent GP, LLC (Delaware)(1)
  - Evergreen Parent, L.P. (Delaware)(1)
    - AmTrust Financial Services, Inc. (Delaware)
      - AmTrust North America, Inc. (Delaware)
      - Security National Insurance Company (Delaware)
        - CorePointe Insurance Company (Delaware)
        - Milford Casualty Insurance Company (Delaware)
      - Wesco Insurance Company (Delaware)
        - AmTrust Insurance Company (Delaware)
        - ARI Insurance Company (Pennsylvania)
        - Associated Industries Insurance Company, Inc. (Florida)
        - First Nonprofit Insurance Company (Delaware)
      - Insco Insurance Services, Inc. (California)
        - Developers Surety and Indemnity Company (California)

Heritage Indeminity Company (California)
Technology Insurance Company, Inc. (Delaware)
Sequoia Insurance Company (California)
Republic Companies, Inc. (Delaware)
Republic Underwriters Insurance Company (Texas)
Republic-Vanguard Insurance Company (Arizona)
Southern Underwriters Insurance Company (Oklahoma)
Republic Fire and Casualty Insurance Company (Oklahoma)
Southern Insurance Company (Texas)
AmTrust Title Insurance Company (New York)
AmTrust International Insurance, Ltd. (Bermuda)
AMT Investments LLC (Delaware)
Rochdale Insurance Company (New York)

(1) The following individuals and entities have the same percentages of ownership in both Evergreen Parent GP, LLC (Evergreen GP) and Evergreen Parent, L.P. (Evergreen Parent): Barry Zyskind (19.04%), George Karfunkel (20.33%) and Leah Karfunkel (13.78%), and certain related persons, trusts, and foundations (12.58%); Trident Pine Acquisition, L.P. (21.80%); Enstar Group Limited, through its affiliate Cavallo Bay Reinsurance Limited (8.41%) and MH JV Holdings, LP (3.74%); and certain members of AmTrust's management team (0.33%). Evergreen GP serves as a general partner for Evergreen Parent, and Evergreen Parent serves as the sole shareholder of AFSI.

Management and control of the Company is currently vested in a three-member board of directors, elected annually. As of December 31, 2021, the directors and principal officers were as follows:

Board of Directors

Name and Location	Principal Business Affiliation
Susan C. Fisch San Francisco, California	Retired (Reinsurance Broker Executive)
Evan M. Greenstein Jericho, New York	Senior Vice President, Commercial Lines AmTrust Financial Services, Inc.
Stephen B. Ungar North Hills, New York	Executive Vice President and General Counsel AmTrust Financial Services, Inc.

Principal Officers

Name	Title
Christopher H. Foy	President
Ellen K. Dion	Treasurer
Stephen B. Ungar	Secretary
Barry W. Moses	Assistant Secretary
Jeffrey H. Mayer	Chief Actuary

Management Agreements

Insurance Services, Management and Agency Agreement: Effective April 19, 2013, the Company entered into an Insurance services, Management and Agency Agreement with AmTrust North America, Inc. (ANA), a Delaware corporation, to appoint ANA as the Company's agent to solicit and accept applications for policies; perform certain management service processing functions; and administer and adjust claims related to the policies. The agreement was approved by the California Department of Insurance (CDI) on May 6, 2013.

Intercompany Management Agreement: Effective April 19, 2013, the Company entered into an Intercompany Management Agreement with its parent, AmTrust Financial Services, Inc. (AFSI). Under the terms of the agreement, AFSI provides management services to the Company that include financial, accounting, corporate and operational management services, and legal support, research, and representation. The agreement was approved by the CDI on May 6, 2013.

The Company did not pay service fees for 2018 through 2021 since all of its direct expenses for management, administrative, and agency services are fully ceded to Technology Insurance Company (TIC), the pool leader, pursuant to the intercompany Reinsurance Pooling Agreement (Pooling Agreement). Effective January 1, 2019, TIC entered into a Management Service Agreement with ANA, under which ANA manages the business assumed by TIC from the pool participants, including the Company. TIC pays all of the management fees pursuant to the Pooling Agreement.

Tax Allocation Agreement: Effective April 19, 2013, the Company is a participant in a Tax Allocation Agreement entered into with its parent and other affiliates under which AFSI files a consolidated federal income tax return on behalf of the group. The method of allocation among the companies is made on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. The agreement was approved by the CDI on May 6, 2013. The federal income tax incurred/(recovered) by the Company for 2018, 2019, 2020, and 2021 were $386,191, $559,746, $78,666, and $29,278, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed to transact property and casualty insurance business in the following forty-eight states and the District of Columbia.

Alabama	Arizona	Arkansas	California	Colorado
Connecticut	Delaware	Florida	Georgia	Idaho
Illinois	Indiana	Iowa	Kansas	Kentucky
Louisiana	Maine	Maryland	Massachusetts	Michigan
Minnesota	Mississippi	Missouri	Montana	Nebraska
Nevada	New Hampshire	New Jersey	New Mexico	New York
North Carolina	North Dakota	Ohio	Oklahoma	Oregon
Pennsylvania	Rhode Island	South Carolina	South Dakota	Tennessee
Texas	Utah	Vermont	Virginia	Washington
West Virginia	Wisconsin	Wyoming		

Direct premiums written during 2021 totaled $98.2 million, of which $96.0 million (97.8%) was for workers' compensation and $2.2 million (2.2%) was for commercial multi-peril. The majority of the Company's business was written in California (56.5%), New York (14.2%), Georgia (5.5%), Pennsylvania (3.4%), and North Carolina (2.2%). Business is written on a direct basis and through its independent agents.

The Company's home office is located in Irvine, California. The day-to-day operations of the Company are mostly managed by its parent, AmTrust Financial Services, Inc. (AFSI), at AFSI’s offices located in Cleveland, Ohio and Dallas, Texas. Most of the Company’s accounting functions are consolidated into the Dallas office.

REINSURANCE

Reinsurance Pooling Agreement

Effective October 1, 2017, the Company and its U.S. property and casualty insurance affiliates entered into a Reinsurance Pooling Agreement (Pooling Agreement) whereby Technology Insurance Company, Inc. (TIC) is the lead company and assumes 100% of the insurance business obligations from the pool participants. This Pooling Agreement replaced the Company’s prior intercompany reinsurance agreement with its affiliate, AmTrust International Insurance, Ltd., which was effectively commuted. The Pooling Agreement and commutation of the previous pooling agreement were approved by the California Department of Insurance on December 15, 2017.

Under the terms of the Pooling Agreement, TIC assumes: (1) 100% of the Company’s liabilities on all insurance policies and all assumed reinsurance contracts that were in force or that had expired or has been terminated or non-renewed as of October 1, 2017; and (2) 100% of the Company’s liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to October 1, 2017. TIC retains 55% of the net pool and retrocedes 45% to the following pool participants: Developers Surety and Indemnity Company (DSIC), Security National Insurance Company (SNIC) and Wesco Insurance Company (WIC) according to their respective pooling percentages of 10%, 10%, and 25%.

Effective January 1, 2021, Amendment No. 1 was added to the Pooling Agreement to update active carriers that are parties to the Pooling Agreement and revise the retrocession percentages. The CDI approved Amendment No. 1 on July 30, 2021. Under Amendment No. 1, TIC retains 58% and retrocedes 42% of the pool’s net retained liability to WIC 22%, SNIC 12%, and DSIC 8%.

Effective January 1, 2023, Amendment No. 2 was added to the Pooling Agreement to add five affiliated insurers, including Republic Fire and Casualty Company, Republic Lloyds, Republic-Vanguard Insurance Company, Southern Insurance Company, and Southern Underwriters Insurance Company, who cede business to the pool without any change to the retrocession percentages. The provisions of the Pooling Agreement are kept in full force and effect. The CDI approved Amendment No. 2 on February 17, 2023.

Assumed

During 2021, the Company assumed an insignificant amount of premiums from two mandatory pools: California Commercial Auto Insurance Procedure and National Workers Compensation Reinsurance Pool.

Ceded

The following is a summary of the principal ceded reinsurance agreements in-force after the pooling as of December 31, 2021:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
U.S. Commercial Core Quota Share Reinsurance	Workers' Compensation, Commercial Property, Professional Liability, General Liability, and Umbrella Liability	Authorized: Swiss Reinsurance America Corporation	66% of $1 million net loss for Workers' Compensation Coverage A or B per occurrence 66% of $5 million for Commercial Property per risk/per occurrence, up to $15 million ultimate net loss 66% of $5 million for Workers' Compensation Coverage B, General Liability and Umbrella per occurrence ultimate net loss 66% of $5 million for Professional Liability claim made ultimate net loss 66% of $1.5 million for Umbrella, Cyber and Professional Advantage per policy net loss	34% of $1 million net loss for Workers' Compensation Statutory Coverage A or B per occurrence 34% of $5 million for Commercial Property per risk/per occurrence, up to $15 million ultimate net loss 34% of $5 million for Workers' Compensation Coverage B, General Liability and Umbrella per occurrence ultimate net loss 34% of $5 million for Professional Liability claim made ultimate net loss 34% of $1.5 million for Umbrella, Cyber and Professional Advantage per policy net loss
Workers' Compensation Catastrophe Excess of Loss Reinsurance	Workers' Compensation	Authorized Arch Reinsurance Company (10%) Hannover Ruck SE (15%) Hamilton Re, Ltd. (1%) Houston Casualty Company (20%) Validus Reinsurance, Ltd. (25%) Various Lloyd's Syndicates (25.5%) Unauthorized Third Point Reinsurance Company Ltd. (3.5%)	First Excess Layer $20 million per occurrence	$50 million excess of $20 million per occurrence

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
		Authorized Arch Reinsurance Company (3.5%) Everest Reinsurance (Bermuda), Ltd. (11.54%) Hamilton Re, Ltd. (0.5%) Munich Reinsurance America, Inc. (2.5%) Validus Reinsurance, Ltd. (26.16%) Various Lloyd's Syndicates (17.5%) Unauthorized Allied World Assurance Company Ltd (7.3%) Hannover Re (Bermuda) Ltd. (15%) Munchener Ruckversicherungs-Gesellschaft AG (10%) Third Point Reinsurance Company Ltd. (6%)	Second Excess Layer $70 million per occurrence	$130 million excess of $70 million per occurrence
		Authorized Everest Reinsurance (Bermuda), Ltd. (5%) Hamilton Re. Ltd. (1%) Munich Reinsurance America, Inc. (10%) Various Lloyd's Syndicates (46%) Unauthorized Allied World Assurance Company Ltd (4%) Hannover Re (Bermuda) Ltd. (14%) Munchener Ruckversicherungs-Gesellschaft AG (10%) Third Point Reinsurance Company Ltd. (10%)	Third Excess Layer $200 million per occurrence	$50 million excess of $200 million per occurrence

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
		Authorized Various Lloyd's Syndicates (70%) Unauthorized Hannover Re (Bermuda) Ltd. (15%) MS Amlin AG Bermuda Branch (15%)	Forth Excess Layer $250 million per occurrence	$100 million excess of $250 million per occurrence

ACCOUNTS AND RECORDS

Schedule E, Part 3, Special Deposits

In accordance with National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, Schedule E, Part 3, Special Deposits, any deposits held for the benefit of all policyholders should be reported in the columns "Deposits for the Benefit of All Policyholders" and any deposits held for special or statutory purpose should be reported in the columns "All Other Special Deposits." It was noted that the Company did not report its special deposits held for the benefit of all policyholders and its special deposits held for special or statutory purposes appropriately in their respective columns. A similar finding was noted in the prior examination. A recommendation was made that the Company implement procedures to ensure its special deposits are properly reported in accordance with NAIC Annual Statement Instructions. Subsequent to the examination date, the Company stated that it has implemented controls and additional training to ensure that its special deposits are properly reported in accordance with NAIC Annual Statement Instructions.

Custodial Agreement

California Insurance Code (CIC) Section 1104.9(c) mandates that securities shall not be deposited in or with a qualified custodian, qualified depository, or qualified subcustodian except as authorized by an agreement between the insurer and the qualified custodian that is satisfactory to and has been approved by the Commissioner. The Company could not provide documentation to evidence that its custodial agreement with JPMorgan Bank and Trust Company, N.A. was submitted to the California Department of Insurance (CDI) for approval pursuant to CIC Section 1104.9(c). A recommendation was made that the Company submit the custodial agreement to the CDI for approval in accordance with CIC Section 1104.9(c). On June 12, 2023, the Company submitted its custodial agreement with JPMorgan Bank and Trust Company, N.A. to the CDI for approval in accordance with CIC Section 1104.9 and is pending review.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2021. The accompanying comments to the amounts in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 41,858,640	$	$ 41,858,640	
Properties held for sale	1,743,103		1,743,103	
Cash, cash equivalents, and short-term investments	2,656,112		2,656,112	
Receivables for securities	105,000		105,000	
Investment income due and accrued	284,432		284,432	
Amounts recoverable from reinsurers	1,584,202		1,584,202	
Net deferred tax asset	2,217,367	1,509,357	708,010	
Receivables from parent, subsidiaries and affiliates	1,994,558		1,994,558	
Total assets	$ 52,443,414	$ 1,509,357	$ 50,934,057	

Liabilities, Surplus, and Other Funds			Notes
Losses		$ 0	(1)
Reinsurance payable on paid loss and loss adjustment expenses		1,046	
Loss adjustment expenses		0	(1)
Other expenses		391	
Current federal and foreign income taxes		71,946	
Ceded reinsurance premiums payable		3,236,245	
Funds held by company under reinsurance treaties		1,192,897	
Provision for reinsurance		666,864	
Payable to parent, subsidiaries and affiliates		53,172	
Total liabilities		5,222,562	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	75,100,129		
Unassigned funds (surplus)	(33,588,634)		
Surplus as regards policyholders		45,711,495	
Total liabilities, surplus, and other funds		$ 50,934,057	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income		
Premiums earned		$ 0
Deductions:		
Losses incurred	$ 0	
Loss adjustment expenses incurred	0	
Other underwriting expenses incurred	562	
Total underwriting deductions		562
Net underwriting loss		(562)
Investment Income		
Net investment income earned	$ 1,005,660	
Net realized capital gains	263,538	
Net investment gain		1,269,198
Other Income		
Net loss from agents' or premium balances charged off	$ 0	
Finance and service charges not included in premiums	0	
Total other income		0
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		1,268,637
Federal and foreign income taxes incurred		29,278
Net income		$ 1,239,359

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		$ 43,909,764
Net income	$ 1,239,359	
Change in net unrealized capital losses	(9,518)	
Change in net deferred income tax	(135,052)	
Change in nonadmitted assets	194,879	
Change in provision for reinsurance	512,063	
Change in surplus as regards policyholders for the year		1,801,731
Surplus as regards policyholders, December 31, 2021		$ 45,711,495

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2017			$ 34,004,282
Net income	$ 11,483,317	$	
Change in net unrealized capital gains	48,862		
Change in net deferred income tax		689,309	
Change in nonadmitted assets	1,190,831		
Change in provision for reinsurance		326,489	
Total gains and losses	$ 12,723,010	$ 1,015,798	
Net increase in surplus as regards policyholders			11,707,212
Surplus as regards policyholders, December 31, 2021			$ 45,711,495

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As of December 31, 2021, the Company reported zero net losses and loss adjustment expenses (LAE) reserves since 100 percent of its losses and LAE expenses were ceded to its parent, Technology Insurance Company, Inc. The Delaware Department of Insurance (DDI) retained an independent Consulting Actuary to conduct an actuarial analysis of AmTrust's December 31, 2021 net and gross loss and LAE reserves for the U.S. pool and non-pool group of companies. A Casualty Actuary from the California Department of Insurance peer reviewed DDI's Consulting Actuary's work and concluded that the loss and LAE reserves carried by the Company are reasonably stated as of December 31, 2021.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Schedule E, Part 3, Special Deposits (Page 11): A recommendation was made that the Company implement procedures to ensure its special deposits are properly reported in accordance with National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. Subsequent to the examination date, the Company stated that it has implemented controls and additional training to ensure that its special deposits are properly reported in accordance with NAIC Annual Statement Instructions.

Accounts and Records – Custodial Agreement (Page 11): A recommendation was made that the Company submit its custodial agreement entered into with JPMorgan Bank and Trust Company, N.A. to the California Department of Insurance (CDI) for approval in accordance with California Insurance Code (CIC) Section 1104.9(c). On June 12, 2023, the Company submitted its custodial agreement with JPMorgan Bank and Trust Company, N.A. to the CDI for approval in accordance with CIC Section 1104.9 and is pending review.

Previous Report of Examination

Accounts and Records – Special Deposits (Page 10): It was recommended that the Company report California Special Deposits in accordance with National Association of Insurance Commissioners Annual Statement Instructions. The Company is not in compliance and a similar finding and recommendation was issued for the current report of examination.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and the Company's employees during the course of this examination.

Respectfully submitted,

Gu, Mei Digitally signed by Gu, Mei
Date: 2023.06.29 16:07:33
-07'00'

Mei Gu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Vang, Ber Digitally signed by Vang, Ber
Date: 2023.06.29 16:10:00
-07'00'

Ber Vang, CFE, AES, CISA
Burea Chief
Department of Insurance
State of California